

THE FINANCIAL COLLAPSE OF HEALTHSOUTH

Part 2

HEARING

BEFORE THE
SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS
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So even though the \$80 million was going away in this example, there would be REIT that we are capitalizing and adding back to the total debt—

Mr. GREENWOOD. But the shareholders would not have been aware of that, would they?

Mr. CAPEK. Well, disclosed in the footnotes of the annual report, you do have the future REIT obligations, so they would be aware of that obligation. Not the loan—the loan going away, but the obligation of the REIT.

Mr. GREENWOOD. Okay. I think 9 hours should do it.

I want to thank all of our witnesses. I thank you for indulging us with this extra time we need for the break.

Oh, Mr. Walden, I am sorry. Nine hours is not enough.

The Chair recognizes the gentleman from Oregon for—I apologize for not noticing you were here.

The gentleman from Oregon is recognized for 10 minutes.

Mr. WALDEN. Thank you, Mr. Chairman.

Mr. McGahan, you were in charge of this account, is that correct?

Mr. MCGAHAN. I was the coverage officer.

Mr. WALDEN. You are a coverage officer? Mr. Lorello, what role did you play in this account?

Mr. LORELLO. I run the healthcare group, and this was one of our clients.

Mr. WALDEN. Okay. After Bill McGahan joined Salomon and Smith Barney and became the HealthSouth coverage officer, to what extent though were you involved with HealthSouth and its transactions?

Mr. LORELLO. Starting in the mid-1990's, I would be invited to annual Board meetings. And what attend those meetings along with Mr. McGahan. And perhaps once a year would attend a meeting down in Birmingham.

Mr. WALDEN. Mr. McGahan, how often did you report to Mr. Lorello on HealthSouth issues?

Mr. MCGAHAN. Periodically when I would see him in the office and when there was something to talk about.

Mr. WALDEN. When there was something to talk about, does that mean like every time there was something to talk about you fed back to Mr. Lorello?

Mr. MCGAHAN. Mr. Lorello would keep track of the pipeline of transactions and I would keep him updated on things that were being contemplated or other transactions that were coming down the pike. If there was also any significant items that would come up, I would keep him informed. But it was periodically. I covered about a 100 healthcare companies and so I would keep him informed—

Mr. WALDEN. I see.

Mr. MCGAHAN. [continuing] on those as things were going on.

Mr. WALDEN. Okay. Could you turn to Tab 34, please? This is an email chain from March 6 and 7 regarding an email from Mr. Scrushy having the subject line "To hell with you guys." Do you recognize this message?

Mr. MCGAHAN. Tab 34?

Mr. WALDEN. Thirty-four, sir, yes.

Mr. MCGAHAN. Yes, sir.